Corsair Exploration Inc.

2001 Annual Report

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ANNUAL GENERAL MEETING

The Annual General Meeting will be held at The Calgary Petroleum Club, 319 - 5 Avenue S.W., Calgary, Alberta, on May 30, 2002 at 10:00 a.m. in the Cardium Room.

Shareholders are encouraged to attend and those unable to do so should complete the form of proxy and forward it at their earliest convenience.

LEGEND

Maps

☼ Gas Well • Oil Well ○ Potential Location ✧ D & A ★ Water Injector

Terms

mcf = thousand cubic feet gas
bbl = barrels
boe = barrels of oil equivalent at (6:1)

CORPORATE HIGHLIGHTS

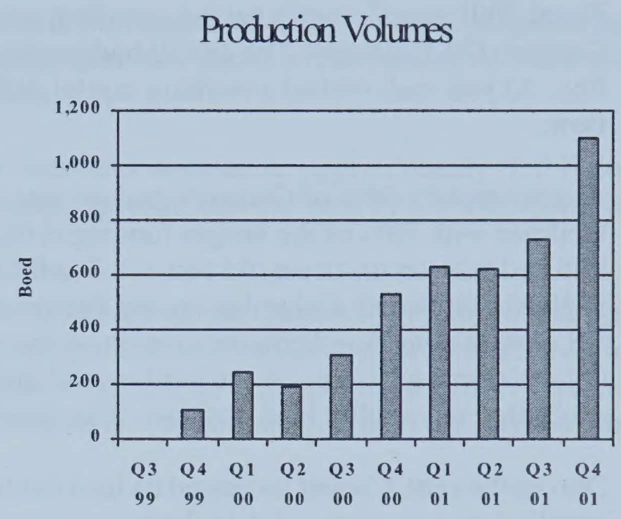
Year ended December 31	2001	2000	% Change
Financial			
Gross Revenue	$9,592,283	$4,700,197	+104
Cash flow from Operations	$5,847,671	$2,951,708	+98
Per Share - basic	$0.45	$0.24	+88
- diluted	$0.43	$0.23	+87
Net Income	$2,285,811	$1,353,163	+69
Per Share - basic	$0.18	$0.11	+64
- diluted	$0.17	$0.10	+70
Working Capital (deficiency)	$(9,907,096)	$30,999	-321
Outstanding Shares - diluted	13,703,033	12,905,819	
Operating			
Daily Average Production (before royalty)			
Crude Oil (barrels)	497	132	+277
Natural Gas (thousand cubic feet)	1,584	1,126	+41
Combined (barrels of oil equivalent)	761	320	+138
Escalating Proved and Probable Reserves (before royalty)			
Crude Oil and NGL's (barrels)	4,819,500	2,937,700	+64
Natural Gas (thousand cubic feet)	17,164,900	14,580,400	+18
Pricing ($ Canadian)			
Crude Oil (per barrel)	35.37	42.35	-16
Natural gas (per thousand cubic feet)	5.49	6.45	-15
Combined (per barrel of oil equivalent)	34.53	40.24	-14
Netback (before G & A and operating expenses per boe)	27.19	26.44	+3
Operating Expenses (per boe)	4.85	4.58	+6
G & A (per boe)	1.17	2.78	-58

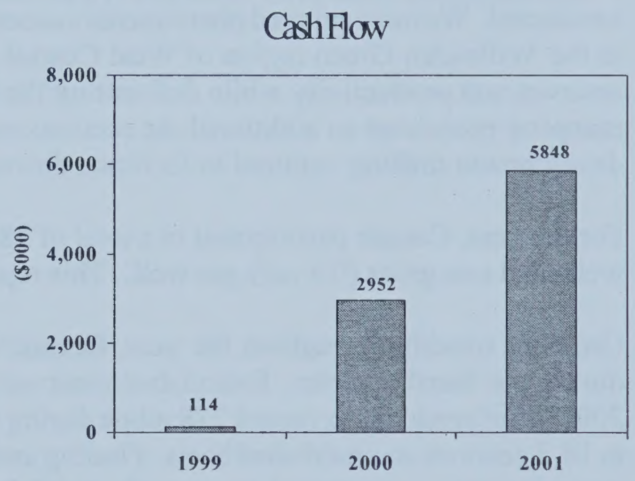
CORPORATE PROFILE - CORSAIR FULFILLS COMMITMENTS TO SHAREHOLDERS

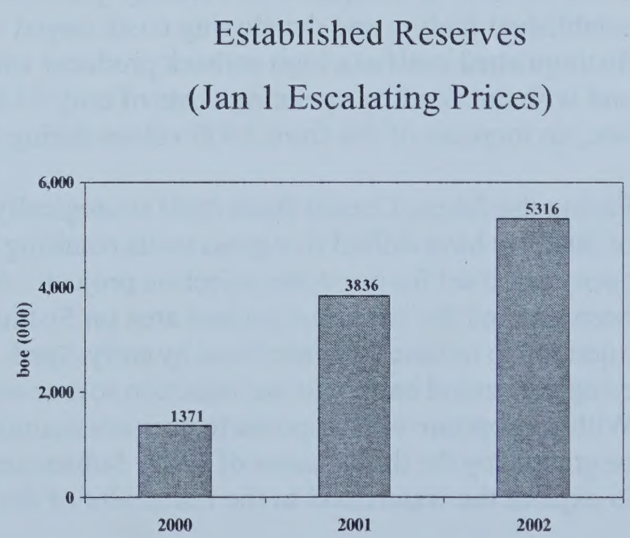
Corsair Exploration Inc. ("Corsair" or the "Corporation") is pleased to announce it has completed a very successful year fulfilling commitments made to shareholders last year. In just two and a half years, following the corporate reorganization and focus shift from mining exploration to oil and gas exploration and production, the Corporation is posting outstanding numbers in every critical area of its business.

Drilling statistics lead the way. Corsair attained an 89% success rate by completing 25 new wells out of 28 gross operations conducted. Operating costs came in at $4.85 per boe. When coupled with G & A costs of $1.17 per boe and with the quality of our crude oil, the Corporation achieved higher net backs per barrel of production even though commodity prices eroded during the year. The Corporation also posted finding and developing costs since inception of $5.08 per boe on an established basis, well below industry averages. This resulted in strong earnings of $0.17 per share diluted, up 70% from the previous year.

Corsair's strategy for continued low cost corporate growth in value and production will be to dedicate the majority of its available capital to the low risk development and extension of its Willesden Green Cardium U Pool Oil discovery. During the first quarter of 2002, the Corporation obtained AEUB approval to install an enhanced oil recovery scheme in a project area at the north end of our pool. Construction is underway with water injection scheduled to start in early April. Subsequent to receiving additional AEUB approvals, the Corporation plans to expand the waterflood Enhanced Oil Recovery Scheme to the remainder of the existing pool. The waterflood is designed to maintain reservoir energy while sweeping the existing accumulation of hydrocarbons towards the producing wells. This both stabilizes and enhances production while optimizing reserve recoveries and maximizing our shareholder value.







A MESSAGE TO OUR SHAREHOLDERS

Fiscal 2001 saw Corsair's capital spending soar to in excess of $16 million as we developed our basin class Cardium Oil discovery. The capital budget was funded out of cash flow and by drawing on our existing bank line. At year end, we had a working capital deficiency of $9.9 million or 1.1 times our anticipated 2002 cash flow.

Approximately 30% of Corsair's budget was spent on equipping wells, installing gathering systems and facilities with 70% of the budget funding drilling, completions and workovers. Our exploration thrust was initiated with an unsuccessful test of a Banff Gas Pool concept at Leech followed by two exploration wells in Northeast British Columbia on our Towne and Highway-Beg Halfway Gas plays. Both wells tested gas but at rates considered non commercial at this time. At Enchant, we participated in the drilling of an Arcs Oil development well. Of the total capital budget, 83% (+/- $12.7 million) was spent at Willesden Green exploiting our quality land position. The remaining 17% was spent on the other areas.

During the year, Corsair increased its land holdings at Willesden Green to 32 sections; built a central battery; installed compression and dehydration; constructed nine test satellites; installed a gathering system; built an extensive road network and drilled 22 gross oil wells with one gross D & A well out of 23 operations conducted. We have enjoyed phenomenal success exploiting this strategically located dominant land holding in the Willesden Green region of West Central Alberta. Our development program proved up substantial reserves and productivity while delineating the Cardium U Pool over 12 contiguous sections. Our current mapping postulates an additional six sections as highly prospective. As well, there is considerable further development drilling required to facilitate downspacing from 160 acres to 80 acres for the pool.

For the year, Corsair participated in a total of 28 gross (13.31 net) wells resulting in 24 gross (11.26 net) oil wells and one gross (0.4 net) gas well. This represents an 89% drill bit success rate for the year.

Growing steadily throughout the year, Corsair's production averaged 761 boed and averaged 1,061 boed during the fourth quarter. Established reserves grew by 39% from 3,836 mboe in 2000 to 5,316 mboe in 2001, after producing a record 278 mboe during the year. The Corporation's reserve life index has extended to 14.6 years on an established basis. Finding and developing costs averaged $8.65 per boe on a proved basis, since inception, compared to recently published industry averages of $15.10 per boe for 2001. Our established finding and developing costs stayed very competitive at $5.08 per boe since inception. Corsair distinguished itself as a high netback producer with higher quality crude, low G & A costs of $1.17 per barrel and with outstanding operating costs of only $4.85 per barrel. As a result, our net backs rose to $27.19 per boe, an increase of 3% from 2000 values during a period of weaker commodity pricing.

Facing the future, Corsair finds itself strategically positioned for continued success. During the first quarter of 2002 we have drilled five gross wells resulting in four oil wells and one gas well. Two of these wells have been converted for our water injection project. AEUB approval of our Enhanced Oil Recovery Scheme has been granted for the initial project area on Sections 10 and 11 in Township 38 Range 6 W5M and it is our intention to initiate the waterflood by early April. A seven and a half mile water pipeline has been completed tying the central battery to our injection source water infrastructure operated by Devon Canada Corporation. With appropriate well response to pressure maintenance, good production practice for the project area should be granted by the third quarter of 2002. Subsequent to receiving additional AEUB approvals, Corsair intends to expand the waterflood to the remainder of the existing pool during the summer of 2002. The enhanced

recovery scheme is expected to stabilize well productivity over an extended period and significantly improve overall reserve recovery.

An eight mile oil line has also been constructed, tying our field to the Rangeland interprovincial oil gathering system. A substantial reduction in operating costs are anticipated as a result of not having to truck our production and subsequently maintain the county road system.

Corsair's working capital deficiency of $9.9 million at year end equates to approximately 1.1 times anticipated cash flow. The capital program for 2002 will closely approximate our cash flow expectations of $8.8 million and will be monitored quarterly.

Corsair has 28 close-in development opportunities at Willesden Green on the Cardium U Pool and new gas play core area ideas that will continue to provide the impetus for growth in value our shareholders have come to expect. Corsair will continue to review assets that come available in strategic areas of the Western Canadian Sedimentary Basin, and will continue to identify acquisition opportunities that could enhance our shareholders value through accelerated growth.

I wish to thank our shareholders for their patient support and our technically astute, hard working staff for their efforts during the past year, without which this success story would not have been accomplished.

Ray G Smith

Raymond G. Smith
Chairman, President and Chief Executive Officer
April 18, 2002

EXPLORATION

THE BASIN

The key direction applied to exploration and development investment by Corsair has been to target superior reservoirs west of the Fifth and Sixth Meridians which offer better than average reserves and production additions. Corsair's growth strategy is focused on light oil and liquid rich gas prospects and Corsair will stay focused on its core areas and continue to add value through the drill bit. In fiscal year 2001 Corsair invested a large portion of its cash flow to developing the Willesden Green Cardium U Pool discovery. Fiscal year 2002 will see a continuation of this strategy as Corsair directs the majority of its efforts in developing the Cardium U Pool.

Corsair has 40,727 gross (18,573 net) acres of land with an excellent inventory of development projects and is well positioned to drill 10 to 15 wells off of existing cash flow in 2002.

Corsair's basic strategy remains in place: keep its success rate high, which will assure steady growth. By aiming a measured portion of the budget at high impact, operated development projects, Corsair provides the opportunity for steady growth. Fiscal year 2002 will see a deliberate focus with the drill bit on these high impact development plays within Corsair's portfolio.

Corsair is off to a good start in 2002, with 100% drilling success in the first quarter and is looking forward to continued exploration and development success on its oil project at Willesden Green.

WILLESDEN GREEN

Willesden Green is an area located in West Central Alberta which contains moderately deep, multi-zone, long life, light oil and liquid rich gas opportunities. The majority of Corsair's Willesden Green acreage is operated with year round access and has been the focus of the majority of its operations over the last two and one half years. Corsair is pursuing a series of Mannville age sands and the Cardium formation in this multi-zone area. Corsair is currently producing oil and liquid rich gas from four different formations. Corsair has drilled 39 gross wells and re-completed an additional four gross wells, resulting in 35 oil wells, five gas wells and three dry holes, establishing a 93% success rate on this core property. In fiscal year 2001 Corsair proved up significant aerial extent in the Cardium U Pool discovery by extending the pool to the south and west over 12 contiguous sections. Corsair's focus in fiscal year 2002 will be to implement the Enhanced Recovery Waterflood Project and delineate and partially down space the Willesden Green Cardium U Pool, targeting the sweet spots within the reservoir. This core area will see development drilling of up to 15 wells, fiscal year 2002 cash flow dependent. Considerable development is needed to fully delineate the Cardium U Pool and Corsair currently has identified 53 potential drilling opportunities on its acreage of which 46 are associated with the Cardium play. Corsair's exploration and development efforts are underpinned by 31.0 sections of land along trend with an average working interest of 47.8% and the right to earn 1.0 more section of land. To date, at Willesden

Green, Corsair has installed a central battery, compression and dehydration to handle gas production, built nine satellites, a gathering system, and road infrastructure. Corsair's oil product is excellent quality at 41 degree API and the gas product is extremely liquid rich, yielding 60-80 bbl/mmcf of gas. Implementation of the waterflood by the second quarter, and continued drilling success at Willesden Green in 2002 will position the Corporation for consistent growth.

PINE CREEK

Pine Creek is a multi-zone, long life, liquid rich gas area that has year round access and is located in west central Alberta. Corsair has two re-entry candidates located on its land which could be initiated as fiscal year 2002 activity. Corsair has six gross sections of land on trend for development of the producing formations which offers growth potential for Corsair in 2002.

LEECH

Leech is a multi-zone, medium depth oil and gas area offsetting infrastructure and plant capacity. Leech is both operated and non-operated and is located in West Central Alberta with some year round access. Corsair has two potential drilling locations in the Leech area, defined on 3-D seismic. Corsair has a 41% Working Interest in 10 gross sections of land and has no plans for this property in fiscal year 2002.

ENCHANT

Enchant is a medium depth, year round access, long life oil production area located in Southeastern Alberta. In fiscal year 2002 Corsair will participate in a pooling and water flood in the Arcs 'C' and 'D' oil pool. Corsair has a 35% Working Interest in 1.75 sections of land on this non-operated property.

HIGHWAY

Highway, located in Northeastern British Columbia, is an area prone to multi-zone, long life liquids rich gas, with abundant pipeline infrastructure and year round access. In fiscal year 2001 Corsair participated in the drilling of two exploratory wells to evaluate the property. One well encountered uneconomic quantities of gas and was abandoned, the second well was cased as a potential gas well. Corsair has no plans for this property in fiscal year 2002. Corsair has a 40% Working Interest in 11 gas spacing units on this non-operated property.

OPERATIONS

In fiscal year 2001, Corsair recorded an operational success rate of 89%. The Corporation participated in one re-entry and 27 new drills. The average working interest was 46%. The average net cost to drill and evaluate or re-enter was $250,800 per operation.

Fiscal Year 2001 Drilling Statistics

	Oil		Gas		D & A		
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Total**
Q1	7.00	3.08	0.00	0.00	2.00	1.25	**9.00**
Q2	4.00	1.68	0.00	0.00	0.00	0.00	**4.00**
Q3	7.00	3.50	1.00	0.40	1.00	0.40	**9.00**
Q4	6.00	3.00	0.00	0.00	0.00	0.00	**6.00**
Totals	**24.00**	**11.26**	**1.00**	**0.40**	**3.00**	**1.65**	**28.00**
Operational Success Rate	**89%**						

LAND

Corsair increased its gross land holdings by 33.7% (9% net) between fiscal year end 2000 and 2001. Corsair spent $228,611 acquiring 4,172 gross acres (1,733 net) at Alberta and British Columbia Crown sales for an average price per acre of $131.90. Corsair earned a further 3,520 gross acres (1,760 net) by way of farmin agreements entered into during the first quarter of 2001. Corsair has the right to earn a further 640 gross acres and is currently in discussions on further opportunities within its core areas. Seaton Jordan & Associates Ltd. provided Corsair with an undeveloped land evaluation as at November 1, 2001, which valued the Corporation's undeveloped land at $1,930,058.

	2001			2000		
	Gross	**Net**	**AVG WI**	Gross	Net	AVG WI
Undeveloped Acres						
Alberta	**21,362**	**9,906**	**46.3%**	19,360	9,092	48.2%
British Columbia	**7,059**	**2,824**	**40.0%**	4,232	4,232	100%
	28,421	**12,730**	**44.8%**	23,592	13,324	56.5%
Developed Acres						
Alberta	**11,601**	**5,561**	**48.0%**	6,880	3,736	54.3%
British Columbia	**705**	**282**	**40.0%**	0	0	0%
Manitoba	**0**	**0**	**0%**	0	0	0%
	12,306	**5,843**	**47.5%**	6,880	3,736	54.3%
TOTAL	**40,727**	**18,573**	**45.6%**	30,472	17,060	56.0%

RESERVES - ESTABLISHED

	Oil & NGL mbbl	Gas mmcf	Combined (mboe 6:1)	NPV 15% ($000)	NPV 10% ($000)
Proven Producing	1,363	4,329	2,085	24,017	27,143
Proven Non-Producing	107	1,933	429	3,972	4,717
Proven Undeveloped	341	570	436	4,024	3,083
Total Proven	1,811	6,832	2,950	31,072	35,885
Probable	3,009	10,332	4,731	30,021	39,675
Total Proved and Probable (unrisked)	4,820	17,164	7,681	61,094	75,560
Probable at 50% risk	1,505	5,166	2,366	15,011	19,838
Established Risk	3,316	11,998	5,316	46,083	55,723

(Reserves adjudicated by McDaniel and Associates and are presented before royalty deductions and 72% of probable reserves value reflect Cardium development and waterflood implementation).

TAX POOLS

Tax Pools Available

	Deduction Rate	2001 $	2000 $
Canadian Exploration Expense	100%	**4,879,000**	3,839,000
Canadian Development Expense	30%	**7,495,000**	922,000
Canadian Oil and Gas Property Expense	10%	**1,002,000**	1,953,000
Capital Cost Allowance	20-30%	**5,578,000**	1,746,000
Foreign Exploration and Development Expense	10%	**841,000**	935,000
		19,795,000	9,395,000

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2001

DESCRIPTION OF BUSINESS

Corsair Exploration Inc. is an oil and gas Corporation with properties in Alberta and British Columbia.

OIL AND GAS PRODUCTION

The Corporation participated in 28 gross (13.31 net) drilling and re-entry operations resulting in 24 gross oil wells (11.26 net) and one gas well (0.4 net) in fiscal year 2001. Production levels increased to 277,834 boe compared to 116,855 boe production in 2000. Corsair's production averaged 497 bpd of oil and ngl's with 1,584 mcfd of gas yielding 761 boed. Production averaged 1,061 boed during the fourth quarter.

ROYALTIES

Royalties net of ARTC increased to $2,039,044 in 2001 from $1,075,079 in 2000, an increase of 90%.

REVENUES AND INCOME

Despite lower prices, significant increases in production resulted in revenues increasing by 104% to $9,592,283 in 2001 up from $4,700,197 in 2000. Net income for the year 2001 was $2,285,811 ($0.17/share) compared to net income of $1,353,163 ($0.10/share) in 2000. An increase of 70%.

AVERAGE PRICES

Average prices received per boe were lower by 14% from $40.24 in 2000 to $34.53 in 2001.

OPERATING AND GENERAL AND ADMINISTRATIVE EXPENSES

Operating expenses increased 151% to $1,346,745 in 2001 up from $535,765 in 2000. This increase is consistent with the increase in production. On a boe basis, operating expenses increased to $4.85/boe in 2001 from $4.58/boe in 2000.

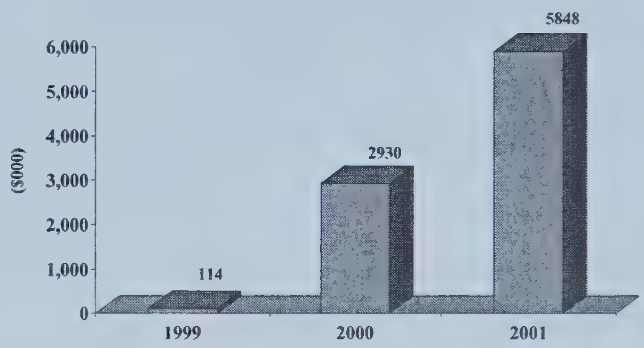
General and Administrative expenses remained fairly consistent at $323,147 for 2001 compared to $309,198 in 2000. However, on a boe basis, general and administrative expenses were down 58% from $2.78 in 2000 to $1.17 in 2001. During 2001 the Corporation capitalized general and administrative expenditures directly related to acquisitions, exploration and development activities of $372,729 compared to $251,279 in 2000.

DEPLETION, DEPRECIATION AND SITE RESTORATION

Depletion expenses increased in 2001 to $7.72/boe from $6.57/boe in 2000. This increase is attributed to higher costs experienced in the drilling activities. The reserve adjudicators have placed substantial value and reserves on the Willesden Green Cardium Oil Pool discovery in the probable category until the waterflood is implemented. AEUB approval of our Enhanced Oil Recovery Scheme has been granted for the initial project area. This will result in a substantial amount of probable reserves being reclassified as proven. The current year includes a future site restoration expense of $87,000 (2000 - $0).

CASH FLOW

Cash flow from operations increased by 98% from $2,951,708 in 2000 to $5,847,671 in 2001. As production levels increased throughout the year, the Corporation's quarterly cash flow correspondingly increased. With an increasing production base and fundamental strength in commodity prices, cash flow is expected to increase steadily in 2002.



INCOME TAXES

Effective January 1, 2000, the Corporation adopted the liability method of accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences - the difference between the carrying amount of an asset and liability on the balance sheet and its tax basis, the carry forward of unused tax losses and unamortized share issue costs. Future income tax assets and liabilities are measured using income tax rates expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that the change is substantially enacted. Future income tax assets are evaluated and if realization is not considered "more likely than not", a valuation allowance is provided.

During the year, the Corporation recognized a provision for future income taxes of $1,329,000. The Corporation's future income tax liability is $2,614,000.

The Corporation paid $9,839 of income taxes in the current year.

CAPITAL ADDITIONS

The Corporation incurred capital expenditures during the year of $16,195,412 compared to $9,364,000 in 2000. This increased capital program is a direct result of the successful, active drilling program carried out in fiscal year 2001.

FINANCIAL RESOURCES AND LIQUIDITY

The Corporation had a revolving production credit facility of $7,000,000 at the year end. Subsequent to the year end, the facility was increased to $9,000,000. At year end the Corporation had utilized approximately $5.5 million of this facility. The Corporation had a working capital deficiency at year end of $9,907,096. This increase in deficiency is due to the successful drilling activities carried out during the year.

RESERVES

During 2001, the Corporation increased its established reserves to 5,316 mboe, a 39% increase from the 3,836 mboe posted on December 31, 2000. The Corporation's product mix for established reserves at December 31, 2001 was 40% gas and 60% oil and ngl's. The proved reserves yield a reserve life index of 8.1 years or 14.6 years on an established basis.

Reconciliation of Changes in Reserves - Escalating Pricing

	Oil and NGL's (mbbls)			Natural Gas (mmcf)		
	Proven	**Probable**	**Total**	**Proven**	**Probable**	**Total**
Balance January 1, 2001	1,291	1,647	2,938	6,084	8,496	14,580
Discoveries, extensions, revisions	701	1,362	2,063	1,327	1,836	3,163
Production	-181	0	-181	-579	0	-579
Balance January 1, 2002	1,811	3,009	4,820	6,832	10,332	17,164

RESERVE ADDITION COSTS

	from inception to date
Net capital expenditures ($000's)	29,062
Net reserve additions	
Proven (mboe)	3,359
Probable (mboe)	4,731
Established (mboe)	5,724
Reserve addition costs on established reserves	
Proven ($/boe)	8.65
Established ($/boe)	5.08

The Corporation's finding and developing costs were $6.05 from inception to 2000 compared to $8.65 per boe since inception to 2001 on a proved basis. The increase was a direct result of the significant capital required to install the central battery, test satellites, gas compressor, dehydration, gathering system and road infrastructure. The bulk of these costs will support significant development within the pool with minimal additional capital outlay.

NET ASSET VALUE

	McDaniel Pricing NPV at 15% BIT	McDaniel Pricing NPV at 10% BIT
Established reserve value (P+1/2 P)	$46,083,000	$55,723,000
Proceeds from exercise of options	1,370,000	1,370,000
Land value (12,730 acres at $151.61/acre)	1,930,000	1,930,000
Working capital deficiency	(9,907,000)	(9,907,000)
Enterprise Value	**$39,476,000**	**$49,116,000**
Outstanding shares	13,051,448	13,051,448
Options	1,157,000	1,157,000
Fully diluted	14,208,448	14,208,448
Asset value/fully diluted share	**$2.78**	**$3.46**

PRICING ASSUMPTIONS

Escalating

	Crude Oil		Natural Gas	
Year	WTI at Cushing, Oklahoma ($US/bbl)	Edmonton Gate ($Cdn/bbl)	Direct Spot ($Cdn/GJ)	AEC Hub ($Cdn/GJ)
2002	20.00	30.30	4.15	4.08
2003	20.90	31.10	4.40	4.32
2004	21.80	32.00	4.45	4.39
2005	22.20	32.10	4.45	4.35
2006	22.60	32.20	4.45	4.36
2007	23.10	32.90	4.50	4.40

ENVIRONMENTAL AND SAFETY POLICY

Corsair is implementing safety and environmental policies that are designed to successfully deal with the extensive regulations for the oil and gas industry. The entire organization is committed to minimizing the effects of its activities on the environment and protecting its employees.

The Corporation has comprehensive insurance to cover risks of well blowouts and pollution. These are just a few of the controls and procedures that Corsair considers in its ongoing challenge to fulfill our commitment to shareholders.

BUSINESS RISKS

The oil and gas industry is subject to uncertainties and risks including commodity prices, product market demand, exploration success, transportation interruptions, foreign exchange and interest rates, government regulation and taxes and environmental and safety concerns. Corsair strives to minimize these risks by proper management of these factors. Corsair employs a highly qualified staff of professionals, maintains a strong and flexible financial position, maintains proactive environmental and safety operating procedures and focus on low cost reserve additions and cash flow optimization to sustain its growth. Extensive geological, geophysical, engineering, environmental and financial analysis are performed on new drilling prospects and potential acquisitions.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Corsair Exploration Inc. were prepared by management in accordance with accounting principals generally accepted in Canada. Financial information presented throughout the Annual Report is consistent with that shown in the financial statements.

Management is responsible for the integrity of the financial statements. Systems of internal control are designed and maintained by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial purposes. In preparation of financial statements, estimates are sometimes necessary when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Based on careful judgements, such estimates have been properly reflected in the accompanying consolidated financial statements.

The external auditors conduct an independent examination of the financial statements in accordance with generally accepted auditing standards in order to express their opinion on the financial statements. Their examination includes a review and evaluation of the Corporation's system of internal controls and such tests and procedures as considered necessary to provide reasonable assurance that the financial statements are presented fairly and are free of material misstatement.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through its Audit Committee. This committee meets with management and the external auditors to satisfy itself that management responsibilities are properly discharged and to review the financial statements before they are presented to the Board of Directors for approval.

Ray G Smith

Raymond G. Smith
Chairman, President and Chief Executive Officer
April 18, 2002

AUDITORS' REPORT

To the Shareholders of
Corsair Exploration Inc.

We have audited the consolidated balance sheets of Corsair Exploration Inc. as at December 31, 2001 and 2000 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Calgary, Canada
March 29, 2002

Chartered Accountants

Corsair Exploration Inc.

CONSOLIDATED BALANCE SHEETS

As at December 31	2001 $	2000 $
ASSETS *[note 4]*		
Current		
Cash and cash equivalent	**37,559**	2,287,830
Accounts receivable	**2,797,543**	3,497,746
	2,835,102	5,785,576
Property and equipment *[note 3]*	**26,063,963**	12,293,635
	28,899,065	18,079,211
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank overdraft *[note 4]*	**5,487,025**	-
Accounts payable and accrued liabilities	**7,255,173**	5,754,577
	12,742,198	5,754,577
Future removal and site restoration	**87,000**	-
Future income taxes *[note 6]*	**2,614,000**	1,285,000
Shareholders' equity		
Share capital *[note 5]*	**9,366,893**	9,236,471
Retained earnings	**4,088,974**	1,803,163
	13,455,867	11,039,634
	28,899,065	18,079,211

See accompanying notes

Approved by the Board:

Ray G Smith

Director

Director

Corsair Exploration Inc.

CONSOLIDATED STATEMENTS OF INCOME

For the year ended December 31	2001 $	2000 $
Revenue		
Oil and gas sales	**9,592,283**	4,700,197
Royalties, net of ARTC	**(2,039,044)**	(1,075,079)
Interest and other income	**76,997**	182,614
	7,630,236	3,807,732
Expenses		
Oil and gas production	**1,346,745**	535,765
General and administrative	**323,147**	309,198
Bank charges and interest	**83,541**	2,962
Depletion, depreciation and site restoration	**2,232,860**	763,644
	3,986,293	1,611,569
Income before income taxes	**3,643,943**	2,196,163
Income taxes *[note 6]*		
Current	**29,132**	-
Future	**1,329,000**	843,000
	1,358,132	843,000
Net income for the year	**2,285,811**	1,353,163

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Retained earnings (deficit) beginning of the year	**1,803,163**	(2,206,443)
Net income for the year	**2,285,811**	1,353,163
Elimination of deficit through reduction of share capital *[note 5]*	**-**	2,206,443
Change in accounting policy *[note 2]*	**-**	450,000
Retained earnings, end of year	**4,088,974**	1,803,163
Basic earnings per share *[note 2]*	**0.18**	0.11
Diluted earnings per share *[note 2]*	**0.17**	0.10

See accompanying notes

Corsair Exploration Inc.

CONSOLIDATED STATEMENTS OF CASH FLOW

For the year ended December 31	2001 $	2000 $
OPERATING ACTIVITIES		
Net income for the year	**2,285,811**	1,353,163
Add items not affecting cash:		
Depletion, depreciation and site restoration	**2,232,860**	763,644
Future income taxes	**1,329,000**	843,000
Gain on sale of marketable securities	**-**	(8,099)
Cash flow from operations	**5,847,671**	2,951,708
Net increase (decrease) in non-cash working capital balances	**2,843,524**	(33,980)
Cash provided by operating activities	**8,691,195**	2,917,728
FINANCING ACTIVITIES		
Issuance of share capital net of share issue costs	**80,422**	1,894,725
Repayment of shareholder loan	**50,000**	-
Cash provided by financing activities	**130,422**	1,894,725
INVESTING ACTIVITIES		
Acquisition of property and equipment	**(16,838,137)**	(8,724,871)
Proceeds on disposal of resource properties	**279,224**	-
Proceeds from the sale of marketable securities	**-**	16,597
Cash used in investing activities	**(16,558,913)**	(8,708,274)
Decrease in cash and cash equivalents, during the year	**(7,737,296)**	(3,895,821)
Cash and cash equivalents, beginning of the year	**2,287,830**	6,183,651
Cash and cash equivalent (bank overdraft), end of the year	**(5,449,466)**	2,287,830
Represented By		
Cash and cash equivalent	**37,559**	2,287,830
Bank overdraft	**(5,487,025)**	-
	(5,449,466)	2,287,830
Cash flow from operations per share:		
Basic	**0.45**	0.24
Diluted	**0.43**	0.23
Interest paid	**53,901**	-
Income taxes paid	**9,839**	-

See accompanying notes

Corsair Exploration Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 & 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The Corporation was incorporated under the Business Corporations Act (Alberta) and is in the business of acquiring, exploring, development and production of crude oil and natural gas in Canada. The Corporation's shares are listed for trading in the Canadian Venture exchange ("CDNX"). The consolidated financial statements include the accounts of Corsair Exploration Inc. and its wholly-owned subsidiary, Moray Services Limited.

The consolidated financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principals. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements involves the use of estimates and approximations which have been made using careful judgement. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Property and equipment

Petroleum and natural gas properties

The Corporation follows the full cost method of accounting for petroleum and natural gas properties, whereby all costs related to the acquisition of, exploration for and development of petroleum and natural gas properties and related reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenditures, costs of drilling both productive and non-productive wells, tangible production equipment and that portion of general and administrative expenditures directly related to acquisition, exploration and development activities. Proceeds from the disposal of properties are applied as a reduction of the cost of the remaining assets, except when such a disposal would change the depletion and depreciation rates by more than 20%, in which case a gain or loss on disposal would be recorded.

Capitalized costs, including tangible production equipment, are depleted and depreciated using the unit-of-production method based on estimated proven reserves of petroleum and natural gas before royalties as determined by an independent reserve engineer, converting natural gas to an oil equivalent basis using six thousand cubic feet of natural gas for one barrel of petroleum.

The Corporation applies a ceiling test to capitalized costs to ensure that such costs do not exceed the estimated undiscounted future net revenues from production of gross proven reserves, using average prices and costs in effect during the year, plus the cost of undeveloped properties net of impairment, less amounts associated with future general and administrative costs, financing costs and income tax expense.

Office furniture and equipment

Office furniture and equipment is recorded at cost and is depreciated on a declining balance basis at 30% per annum.

Future removal and site restoration costs

Estimated future costs of site restoration, including the removal of production facilities at the end of their useful lives, are provided for on a unit of production basis. The estimate is based on current costs, existing legislation and industry practice. The annual provision is included in depletion, depreciation and site restoration expense. Actual expenditures incurred are applied against the accumulated liability.

Measurement uncertainty

The amounts recorded for depletion and depreciation of property and equipment and the provision for future removal and site restoration costs are based on estimates. The ceiling test calculation is based on estimates of proven reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates on the consolidated financial statements of future periods could be material.

Flow-through shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Under the liability method of accounting for income taxes adopted by the Corporation effective January 1, 2000, the future income taxes related to the temporary differences arising at the later of the renunciation and when the qualifying expenditures are incurred, are recorded at that time together with a corresponding reduction to the carrying value of the shares issued.

Joint activities

Substantially all of the Corporation's exploration and production activities are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the Corporation's proportionate interest in such activities.

Stock options

Under the stock option plan described in note 5, no compensation expense is recognized when stock options are issued to employees. Any consideration paid on exercise of stock options is credited to share capital.

Income taxes

The Corporation has adopted the liability method of accounting for income taxes *[note 2]*. Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences - the difference between the carrying amount of an asset and liability on the balance sheet and its tax basis, the carry forward of unused tax losses and unamortized share issue costs. Future income tax assets and liabilities are measured using income tax rates expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that the change is substantially enacted. Future income tax assets are evaluated and if realization is not considered "more likely than not", a valuation allowance is provided.

Financial instruments

The fair values of financial instruments, comprising cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank overdraft, approximate their carrying values.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at rates of exchange prevailing on the transaction date. Gains and losses on translation are reflected in the statement of income.

Cash and cash equivalents

Cash equivalents include short-term investments with maturities of less than 90 days.

2. CHANGES IN ACCOUNTING POLICY

Basic earnings and cash flow from operations per share are calculated based on net income for the year or cash flow from operations as the numerator in the calculation and the weighted average number of common shares outstanding during the year as the denominator.

Effective January 1, 2001, the Corporation retroactively adopted the treasury stock method of computation, presentation and disclosure of diluted per share amounts as recommended by the Canadian Institute of Chartered Accountants ("CICA"). Under the treasury stock method, only "in the money" diluted stock options and other instruments impact the diluted calculations. Proceeds obtained upon exercise of "in the money" options would be used to repurchase common shares at the average market price during the year. The diluted weighted average number of common shares is then calculated based on these assumed transactions.

Prior year diluted earnings per share and diluted cash flow from operations per share have been restated to reflect this change. If the imputed earnings method has been used to calculate these amounts, there would not be a material dilutive effect on diluted earnings per share or diluted cash flow from operations per share.

Effective January 1, 2000, the Corporation adopted the liability method of accounting for income taxes as recommended by the CICA. Under the liability method, the Corporation records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability recorded using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Corporation has adopted the CICA recommendations on a retroactive basis without restatement of prior periods by recording an increase to retained earnings of $450,000, and a decrease in future income taxes of $450,000.

Prior to January 1, 2000, the Corporation followed the deferral method of tax allocation accounting under which the provision for income taxes was based on the earnings reported in the accounts. This method made full provision for income taxes deferred as a result of timing differences between income per the financial statements and taxable income.

3. PROPERTY AND EQUIPMENT

	2001		
	Cost $	Accumulated Depletion and Depreciation $	Net Book Value $
Petroleum and natural gas properties and related equipment	29,008,147	2,974,101	26,034,046
Office furniture, equipment and other	54,112	24,195	29,917
	29,062,259	2,998,296	26,063,963

	2000		
	Cost $	Accumulated Depletion and Depreciation $	Net Book Value $
Petroleum and natural gas properties and related equipment	13,107,668	837,101	12,270,567
Office furniture, equipment and other	38,403	15,335	23,068
	13,146,071	852,436	12,293,635

During 2001, the Corporation capitalized general and administrative expenditures directly related to acquisition, exploration and development activities of $372,729 (2000 - $251,279).

At December 31, 2001, unproved properties with a cost of $1,042,862 (2000 - $393,830) have been excluded from the costs subject to depletion and depreciation.

The application of the ceiling test in 2001 made use of average prices for the year for oil at $39.60/bbl and gas at $5.28/Mmbtu. It was determined that no write-down was required of the carrying value of property and equipment as a result of the ceiling test . No write-down would have been required if year end prices were applied for the ceiling test. The year end prices were $29.16/bbl for oil and $3.37/Mmbtu for gas.

4. BANK OVERDRAFT

The Corporation has a $7,000,000 revolving production demand credit facility bearing interest at the lender's prime rate (December 31, 2001 - 4%). The facility is collateralized by a $15,000,000 floating charge debenture covering certain assets of the Corporation.

At December 31, 2001, the amount drawn under this facility was $5,487,025 (December 31, 2000 - $0).

5. SHARE CAPITAL

Authorized

Unlimited number of voting common shares without par value
Unlimited number of non-voting first preferred shares without par value
Unlimited number of non-voting second preferred shares without par value

Common shares issued and outstanding	**2001**		**2000**	
	Shares	**$**	**Shares**	**$**
Balance, December 31	**12,966,448**	**9,236,471**	11,427,986	10,440,189
Exercise of options	**85,000**	**83,000**	-	-
Share issue costs	-	**(2,578)**	-	(5,275)
Elimination of deficit through reduction of share capital (i)	-	-	-	(2,206,443)
Flow-through shares (ii)	-	-	1,538,462	2,000,000
Tax benefits renounced (ii)	-	-	-	(892,000)
Share purchase loans *[note7]*	-	-	-	(100,000)
Share purchase loan repaid *[note 7]*	-	**50,000**	-	-
Balance, December 31	**13,051,448**	**9,366,893**	12,966,448	9,236,471

i) On May 10, 2000, the shareholders of the Corporation approved the elimination of the deficit of $2,206,443 at December 31, 1999 by offsetting it against share capital.

ii) In accordance with the terms of the Corporation's various flow-through share offerings, and pursuant to certain provisions of the Income Tax Act (Canada), the Corporation committed to renounce, for income tax purposes, exploration and development expenditures to the purchasers of its flow through shares. During 2000, Corsair renounced $2,000,000 of expenditures. To recognize the foregoing tax impact to the Corporation relating to the renounced expenditures, the carrying value of share capital has been reduced by $892,000.

Stock options

The Corporation has established a stock option plan whereby the Corporation may grant options to its directors, officers and employees for up to 1,296,645 common shares. The exercise price of each option equals the market price of the Corporation's stock on the date of the grant and an option's maximum term is five years. The stock options vest over three years. The following is a continuity of stock options outstanding for which shares have been reserved.

	2001		2000	
	Options	**Weighted-Average Exercise Price $**	**Options**	**Weighted-Average Exercise Price $**
Opening	**1,182,280**	**1.09**	920,000	0.97
Granted	**60,000**	**2.68**	262,000	1.51
Exercised	**(85,000)**	**0.98**	-	-
End of year	**1,157,000**	**1.18**	1,182,000	1.09

The following summarizes information about stock options outstanding at December 31, 2001:

Range of Exercise Prices $	Number Outstanding At 12/31/01	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price $
0.70	25,000	3.3	0.70
0.75	500,000	2.5	0.75
1.30	330,000	2.7	1.30
1.60	237,000	3.8	1.60
1.65	5,000	2.8	1.65
2.46	30,000	4.7	2.46
2.90	30,000	4.7	2.90
	1,157,000		

6. INCOME TAXES

The Corporation has an effective tax rate which differs from the expected Canadian income tax rate. The differences are as follows:

	2001 $	2000 $
Computed expected provision	**1,571,269**	979,928
Statutory tax rate	**43.12%**	44.62%
Increase (decrease) resulting from:		
Non-deductible crown royalties, net of Alberta royalty credits	**537,355**	283,789
Resources deduction for tax purposes	**(697,493)**	(361,698)
Rate adjustment	**(74,854)**	-
Capital tax	**24,000**	-
Other	**(2,145)**	(59,019)
Provision for income taxes	**(1,358,132)**	843,000

At December 31, 2001, the Corporation has exploration and development costs and undepreciated capital costs available for deduction against future taxable income of approximately $19,800,000 (2000 - $9,345,000).

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Corporation's future income tax assets and liabilities are as follows:

	2001 $	2000 $
Net book value of capital assets in excess of tax pools	**(2,629,000)**	(1,293,000)
Share issue costs	**5,200**	4,300
Rate reduction from resources allowance	**(1,700)**	(2,500)
Royalty income	**11,500**	6,200
Future tax liability	**(2,614,000)**	(1,285,000)

7. RELATED PARTIES

At December 31, 2001, the Corporation had outstanding loans of $50,000 (2000 - $100,000) due from two officers of the Corporation. The loans bear interest at 7% per annum compounded semi-annually.

Collateral for the loans consists of the common shares purchased. The Corporation has no recourse against the parties to the loans if the Corporation's share price subsequently declines. For purposes of these financial statements the amount outstanding on these notes has been recorded as a reduction in share capital *[note 5]*.

8. COMMITMENTS

The Corporation leases its premises under an operating lease agreement which expires January 31, 2004. Under the terms of the lease, the Corporation is committed to making annual payments of $70,548.

CORPORATE INFORMATION

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Corsair Exploration Inc.

Hank B. Swartout, P.Eng.
President, Chairman and Chief Executive Officer
Precision Drilling Corporation

Darold H. Parken, BA (Econ) LLB
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OFFICERS

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Philip E. Collins, P.Geol
Vice President, Exploration

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Vice President, Land and Contracts

Jan M. Campbell
Corporate Secretary

STOCK EXCHANGE LISTING

The Canadian Venture Exchange
Trading Symbol: "CXI"